

Message Text

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SUBJECT: REDISTRIBUTION OF INCOME ANALYZED

1. IN ISSUE OF MERCADO DATED DECEMBER 16 AND DEVOTED TO DETAILED ANALYSIS OF ARGENTINE ECONOMY, DR. MARTIN LAGOS, ADVISER TO MINISTER OF ECONOMY MARTINEZ DE HOZ, GIVES HIS APPRAISAL OF THE REDISTRIBUTION OF INCOME WHICH HAS TAKEN PLACE IN 1976. SALIENT POINTS ARE SUMMARIED BELOW:
 2. ARGENTINE STATISTICS ARE SO DEFICIENT THAT IT IS NOT POSSIBLE TO DETERMINE ACCURATELY THE DECLINE OF INCOME OF THE SALARIED SECTOR. HOWEVER, TAKING INTO ACCOUNT REAL WAGES, LOSS OF MAN-HOURS WORKED, UNOFFICIAL PAYMENTS, AND THE LEVEL OF EMPLOYMENT, LAGOS ESTIMATES THAT THE REAL INCOME OF THE SALARIED SECTOR DECREASED ABOUT 30 PERCENT IN RELATION TO 1975.
 3. LAGO ESTIMATES THAT THE DECLINE IN REAL INCOME OF THE SALARIED SECTOR REPRESENTS 13.5 PERCENT OF GDP, OF WHICH 4 PERCENT WAS LOST AS A RESULT OF THE RECESSION AND ADDITIONAL 4.5 PERCENT REPRESENTED DIMINISHED RESOURCES FOR DOMESTIC CONSUMPTION AND INVESTMENT DUE TO FOREIGN TRANSACTIONS (I.E. CHANGE FROM CURRENT ACCOUNT DEFICIT OF \$1.3 BILLION IN 1975 TO SURPLUS OF OVER \$500 MILLION IN 1976). THE REMAINING 5 PERCENT WAS REDISTRIBUTED TO THE NON-
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SALARIED SECTOR, CONSISTING PRIMARILY OF BUSINESSMEN AND THE STATE.

4. LAGOS BELIEVES THAT THE ECONOMIC OUTLOOK FOR 1977 IS ESSENTIALLY GOOD, ASSUMING A GOOD LEVEL OF EXPORTS AND INVESTMENT. FOR INVESTMENT TO MATERIALIZE, LAGOS AFFIRMS THAT THE

GOVERNMENT MUST BE UNIFIED AND TRANSMIT FAITH AND CONFIDENCE TO THE COUNTRY. THE URBAN SECTOR, HOWEVER, PRESENTS A COMPLICATED SITUATION. LAGOS STATES THAT THE GOVERNMENT MUST PERSUADE THE BUSINESS SECTOR TO EXERCISE RESTRAINT WITH RESPECT PRICE INCREASES SO THAT A MODERATE RECOVERY IN REAL WAGES WILL BE POSSIBLE. IF NOT, HE WARNS, "THE EXISTING TENSION COULD LEAD TO A WAGE-PRICE SPIRAL (WITH OR WITHOUT WAGE CONTROLS) OR TO AN INCREASE IN PRESSURES TO RETURN TO PRICE CONTROLS. THE FIRST ALTERNATIVE WOULD LEAD GOVERNMENT AUTHORITIES TO COUNTERACT IT BY RESTRICTING THE EXPANSION OF THE MONEY SUPPLY AND IN THIS MANNER FURSTRATE PARTIALLY OR TOTALLY THE RECOVERY. THE SECOND ALTERNATIVE WOULD LEAD TO WHAT IS WELL KNOWN BY ALL: A REPETITION OF THE SCENE BETWEEN MAY 1975 AND MARCH 1976.

5. COMMENT: EMBASSY CONCURS WITH LAGOS' ANALYSIS OF THE REDISTRIBUTION OF INCOME AND POTENTIAL DANGERS FACING ARGENTINA IN 1977, NOT THE LEAST OF WHICH IS INCREASING SOCIAL UNREST UNLESS THERE IS SUBSTANTIAL RELIEF FOR THE PROBLEM OF DECLINING REAL WAGES.
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